

Message Text

UNCLASSIFIED

PAGE 01 PARIS 23817 01 OF 03 171730Z

ACTION EB-08

INFO OCT-01 EUR-12 EA-09 IO-14 ISO-00 AID-05 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00

XMB-04 OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 AGRE-00 /115 W

-----069382 171802Z /46

R 171717Z AUG 77

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 7215

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION GENEVA

AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

UNCLAS SECTION 01 OF 03 PARIS 23817

USMTN:

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 22544

1. SUMMARY

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PAGE 02 PARIS 23817 01 OF 03 171730Z

ATTENTION IS GRADUALLY BEGINNING TO FOCUS ON THE
RENTREETHE PERIOD AT THE BEGINNING OF SEPTEMBER
WHEN VACATIONING FRANCE RETURNS BACK TO NORMAL.
THE GOF WILL WASTE NO TIME WITH REGARD TO ITS
ECONOMIC POLICY SINCE THE 1978 BUDGET IS TO BE
MADE PUBLIC ON SEPTEMBER 7. THE GOF CAN ONLY

HOPE THAT WITH THE RENTREE THE UNEMPLOYMENT SITUATION WILL IMPROVE SINCE THE EXPECTED IMPROVEMENT IN JULY DID NOT MATERIALIZE. END SUMMARY

2. 1978 BUDGET MOST PROBABLY WILL SHOW A DEFICIT

THE 1978 BUDGET BILL WILL BE OFFICIALLY PRESENTED ON SEPTEMBER 7. THE MAJOR ASPECTS ON THE EXPENDITURE SIDE ARE ALREADY KNOWN: AN 11.9 PERCENT INCREASE FROM FF 354 BILLION IN 1977 TO FF 396 BILLION IN 1978; CREATION OF 25,000 JOBS IN THE PUBLIC DOMAIN; AND ALLOCATION OF FF 30 BILLION TO THE NATIONALIZED SECTOR IN ORDER TO FINANCE ITS INVESTMENT PROGRAM AND TO COMPENSATE FOR THE LIMITATION OF PUBLIC TARIFFS (WITH THE EXCEPTION OF THE RAILROAD SYSTEM) TO A 6.5 PERCENT INCREASE IN 1978. ESTIMATED REVENUE HAS STILL NOT BEEN MADE PUBLIC, BUT MOST COMMENTATORS BELIEVE THAT THE BUDGET WILL SHOW A SIZABLE DEFICIT DUE TO SUCH FACTORS AS THE SLOW GROWTH OF THE ECONOMY, CERTAIN LARGE FIXED EXPENSES IN THE BUDGET AND VARIOUS REFORMS WHICH WILL REDUCE REVENUE SUCH AS AN INCREASE IN DIVIDEND EXEMPTIONS AND A RAISE IN INCOME TAX BRACKETS IN ORDER TO BENEFIT LOW AND MIDDLE WAGE EARNERS.

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PAGE 03 PARIS 23817 01 OF 03 171730Z

3. PUBLIC ADMINISTRATIONS WILL HAVE TO PAY INTEREST ON OVERDUE BILLS

THE COUNCIL OF MINISTERS HAS DECREED THAT EFFECTIVE NOVEMBER 1, MOST PUBLIC ADMINISTRATIONS WILL HAVE TO PAY INTEREST ON ANY OVERDUE AMOUNTS OWED TO FIRMS. THE PATRONAT HAS ON NUMEROUS OCCASIONS DEMANDED THIS TYPE OF MEASURE IN ORDER THAT THE FINANCIAL SITUATION OF COMPANIES WOULD NOT BE HARMED BY DELAYS IN PAYMENT BY PUBLIC ADMINISTRATIONS.

COMMENT: THE INCENTIVE THIS MEASURE GIVES TO PUBLIC ADMINISTRATIONS TO PAY THEIR OVERDUE BILLS WILL BE A VERY IMPORTANT FACTOR IN ADDING LIQUIDITY TO THE ECONOMIC SYSTEM LATE THIS FALL, SINCE THE CURRENT GOF "FLOAT" ON BILLS DUE IS VERY LARGE. THE GOF INTENDS TO EXPEDITE ITS REDUCTION WITH A CORRESPONDINGLY SUBSTANTIAL INCREASE OF LIQUIDITY IN THE BUSINESS SECTOR. ANY PUBLIC ENTITY THAT HAS TO PAY INTEREST ON OVERDUE BILLS WILL BE SEVERELY CRITICIZED BY THE EVER PRESENT INSPECTEURS DES FINANCES.

4. JULY UNEMPLOYMENT LEVEL SHOWS NO INDICATION THAT
GOF MEASURES HAVE BORNE ANY FRUIT

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PAGE 01 PARIS 23817 02 OF 03 171734Z
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UNCLAS SECTION 02 OF 03 PARIS 23817

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DESPITE THE GOF MEASURES PUT INTO EFFECT IN JULY TO
ALLEVIATE THE UNEMPLOYMENT PROBLEM, PARTICULARLY OF
YOUTH, TOTAL UNEMPLOYMENT INCREASED BY 2.6 PERCENT
TO 1,180,000 ON A SEASONALLY ADJUSTED BASIS. UNFILLED
JOB OFFERS WERE 98,100, AN INCREASE OF 5.4 PERCENT.
WE ESTIMATE SEASONALLY ADJUSTED UNEMPLOYMENT TO BE
5.7 PERCENT OF THE LABOR FORCE (SEE PARIS A-148 FOR
METHODOLOGY).

THE MINISTRY OF LABOR IN ITS COMMENTARY ON THESE

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PAGE 02 PARIS 23817 02 OF 03 171734Z

FIGURES SAID THAT THEY INDICATE A RELATIVE STAGNATION OF ECONOMIC ACTIVITY. EMPLOYERS APPEAR TO PREFER TO WAIT UNTIL AFTER THE SUMMER VACATION BEFORE PROCEEDING TO HIRING THE YOUNG. ACCORDING TO THE MINISTRY, THIS TENDENCY IN THE LABOR MARKET SHOULD IN ALL LIKELIHOOD CONTINUE THROUGH AUGUST. ONLY STARTING IN SEPTEMBER SHOULD THE GOF'S MEASURES IN FAVOR OF EMPLOYMENT OF THE YOUNG BEGIN TO BEAR SOME FRUIT.

COMMENT: THE STEPS DESIGNED TO IMPROVE BUSINESS LIQUIDITY REPORTED PARA 3 MAY BE USED TO HELP EMPLOYERS' DECISIONS IN THIS RESPECT.

5. ACTIVITY WEAKENS IN THE CONSTRUCTION AND PUBLIC WORK SECTORS

AFTER A TEMPORARY INCREASE IN ACTIVITY AT THE BEGINNING OF THE YEAR, THE CONSTRUCTION INDUSTRY EXPERIENCED A WEAKENING IN SEASONALLY ADJUSTED ACTIVITY DURING THE SECOND QUARTER. THE VOLUME OF WORK IS CURRENTLY LOWER THAN IT WAS A YEAR AGO. THE DECREASE IS MOST NOTICEABLE IN ACTIVITIES TIED TO PUBLIC ORDERS. BACK ORDERS REMAIN VERY LOW. HOWEVER, BUSINESSMEN INDICATE A SLIGHT INCREASE IN PRIVATE DEMAND. DELAYS IN PAYMENT BY BOTH PUBLIC AND PRIVATE CLIENTS HAVE INCREASED AS HAVE FINANCIAL DIFFICULTIES FOR THIS SECTOR.

THE PUBLIC WORKS SECTOR ALSO EXPERIENCED A WEAKENING OF ACTIVITY DURING THE SECOND QUARTER. THIS SECTOR HAS SUFFERED A FALL IN ORDERS ON THE PART OF BOTH PUBLIC AND PRIVATE CLIENTS, WHEREAS IN THE PREVIOUS

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PAGE 03 PARIS 23817 02 OF 03 171734Z

LOW PERIOD IN 1975 ONLY PRIVATE ORDERS FELL. BUSINESSMEN IN THIS SECTOR ARE VERY PESSIMISTIC REGARDING ACTIVITY AND EMPLOYMENT. FOR THE THIRD CONSECUTIVE QUARTER, DELAYS IN PAYMENT HAVE INCREASED, AND 45 PERCENT OF THE BUSINESSMEN IN THIS SECTOR ARE EXPERIENCING SOME FINANCIAL DIFFICULTIES.

6. VERY LITTLE GROWTH IN RETAIL TRADE DURING FIRST HALF OF YEAR

SINCE THE BEGINNING OF THE YEAR THERE HAS BEEN LITTLE GROWTH IN RETAIL TRADE OF NON-FOOD PRODUCTS, WITH THE EXCEPTION OF MAY AND JUNE WHEN THERE WAS A SLIGHT INCREASE IN SALES AT A LEVEL NEAR THE 1976 AVERAGE. MERCHANTS HAVE CONTINUED TO ADJUST THEIR INVENTORIES TO THE LEVEL OF ACTIVITY; STOCKS HAVE THEREFORE SHOWN LITTLE VARIATION AND ARE HIGH IN THE CLOTHING INDUSTRY AND SLIGHTLY HIGHER THAN AVERAGE IN OTHER SECTORS. THE LIQUIDITY SITUATION OF FIRMS IN THIS SECTOR CONTINUED TO DETERIORATE IN MAY-JUNE. IT BECAME INCREASINGLY DIFFICULT FOR FIRMS IN THIS SECTOR TO OBTAIN BANK CREDITS. RETAIL MERCHANTS WERE PESSIMISTIC REGARDING THE PROBABLE EVOLUTION OF SALES VOLUME AND WERE THUS VERY PRUDENT IN THEIR INTENTIONS TO ORDER. THEY EXPECT THE PRICES OF MANUFACTURED PRODUCTS TO INCREASE AT A RELATIVELY MODERATE RATE IN COMING MONTHS.

7. NO CHANGE IN UNADJUSTED MONEY SUPPLY IN MAY

THE UNADJUSTED MONEY SUPPLY (M2) WAS FF 889.4 BILLION IN MAY, VIRTUALLY UNCHANGED FROM THE APRIL LEVEL. M1 WAS FF 453.7 BILLION (0.1 PERCENT INCREASE) WHILE NEAR-MONEY WAS FF 435.8 BILLION (0.1 PERCENT DECREASE). NET FOREIGN EXCHANGE RESERVES STOOD AT FF 44.1 BILLION (0.9 PERCENT INCREASE); CLAIMS UNCLASSIFIED

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PAGE 04 PARIS 23817 02 OF 03 171734Z

ON THE PUBLIC SECTOR AT FF 110.9 BILLION (2.2 PERCENT DECREASE); AND CLAIMS ON THE PRIVATE SECTOR AT FF 773.3 BILLION (1.1 PERCENT DECREASE).

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PAGE 01 PARIS 23817 03 OF 03 171740Z

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UNCLAS SECTION 03 OF 03 PARIS 23817

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PRELIMINARY PRESS REPORTS INDICATE THAT THE
SEASONALLY ADJUSTED MONEY SUPPLY GREW BY
0.9 PERCENT, M1 BY 0.8 PERCENT AND NEAR
MONEY BY 0.7 PERCENT.

OTHER REPORTS SUBMITTED DURING THE PERIOD

TELEGRAMS PARIS

22427 VISIT BY SECRETARY BLUMENTHAL

22437 ZAIRE DEBT RESCHEDULING

UNCLASSIFIED

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PAGE 02 PARIS 23817 03 OF 03 171740Z

22980 PRESS COVERAGE OF AUGUST 6 MEETING

23047 WORLD BANK/IMF ANNUAL MEETINGS

23424 MOF BALANCE OF PAYMENT AND FINANCING
PROJECTIONS

23464 MICHEL DEBRE ON INTERNATIONAL ECONOMICS -- A

GAULLIST MANIFESTO WITH BROAD RESONANCE?

23661 THE "DEBT ISSUE" IN UNCTAD

AIRGRAMS PARIS

A-290 TRADE W/SOVIET BLOC, ALBANIA, CHINA, NORTH

KOREA, VIETNAM, OUTER MONGOLIA, & CUBA

A-298 FRENCH FOREIGN EXCHANGE HOLDINGS

A-302 ECONOMIC TRENDS IN FRANCE & THEIR IMPLICATIONS
FOR THE UNITED STATES

A-307 TRADE WITH COMMUNIST AREAS
A-306 FRENCH FOREIGN EXCHANGE HOLDINGS
HARTMAN

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